

**Financial Statements**

**Village of Elsie**  
**Clinton County, Michigan**

**March 31, 2008**



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## **INDEPENDENT AUDITOR'S REPORT**

Village Council  
Village of Elsie  
Clinton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elsie (the Village), as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The script is cursive and fluid.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 25, 2008

## **MANAGEMENT'S DISCUSSION and ANALYSIS**



Village of Elsie  
Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2008

We, the Council of the Village of Elsie, offer citizens of the Village our financial statements with the narrative overview and analysis of the financial activities of the Village of Elsie for the fiscal year ended March 31, 2008.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village of Elsie as a whole, and present a longer-term view of the Village finances.

Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

### **Financial Highlights**

The unrestricted net assets of the Village of Elsie governmental activities exceeded its liabilities at the close of the current fiscal year by \$235,748 which may be used to meet the Village's ongoing obligations to citizens and creditors.

Additionally, the Village governmental funds reported an ending fund balance of \$429,854, an increase of \$92,653 from the prior year fund balance.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements** – The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, community and economic development, and recreation and culture.

**Fund Financial statements** – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Village can be divided into three categories; governmental funds, proprietary funds, and discretely presented component units.

**Governmental funds** – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village adopts an annual appropriated budget for its general and major streets funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

**Notes to the financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information** – In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* as required by GASB statement 34 regarding the Village's budgetary comparison of the general and major streets funds. This supplementary information is contained behind its own tab following the notes to financial statements.

### **Village Highlights**

During the 2008 fiscal year, the Village of Elsie:

- Replaced patrol car
- Purchased golf cart for police department
- Paved Third Street
- Sold parking lot at 145 E. Main Street
- Sold black walnut trees at the lagoons and 122 E. Maple Street

### **Requests for Information**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact a Village of Elsie Councilperson at 989-862-4273, or write to us at:

Village of Elsie  
P. O. Box 408  
Elsie, MI 48831



**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**



Village of Elsie  
Statement of Net Assets  
March 31, 2008

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents	\$307,527	\$108,307	\$415,834	\$96,510
Investments	195,561	242,074	437,635	-
Accounts receivable	4,100	34,131	38,231	-
Due from other governments	85,235	-	85,235	-
Internal balances - net	(153,539)	153,539	-	-
Total current assets	438,884	538,051	976,935	96,510
Noncurrent assets				
Special assessments receivable	-	1,690	1,690	-
Loans receivable	-	-	-	85,504
Capital assets - not depreciated	-	171,000	171,000	-
Capital assets - depreciated, net	104,176	5,674,230	5,778,406	-
Total noncurrent assets	104,176	5,846,920	5,951,096	85,504
TOTAL ASSETS	543,060	6,384,971	6,928,031	182,014
LIABILITIES				
Current liabilities				
Accounts payable	8,710	2,975	11,685	-
Accrued liabilities	320	1,821	2,141	-
Accrued interest payable	-	19,626	19,626	-
Current portion of long-term debt	-	58,728	58,728	-
Total current liabilities	9,030	83,150	92,180	-
Noncurrent liabilities				
Compensated absences	12,852	-	12,852	-
Noncurrent portion of long-term debt	-	2,017,326	2,017,326	-
Total noncurrent liabilities	12,852	2,017,326	2,030,178	-
TOTAL LIABILITIES	21,882	2,100,476	2,122,358	-
NET ASSETS				
Invested in capital assets, net of related debt	104,176	3,770,866	3,875,042	-
Restricted for:				
Bond reserve	-	69,300	69,300	-
RRI/sludge removal reserve	-	70,000	70,000	-
Streets and highways	56,182	-	56,182	-
Perpetual care	125,072	-	125,072	-
Unrestricted	235,748	374,329	610,077	182,014
TOTAL NET ASSETS	\$521,178	\$4,284,495	\$4,805,673	\$182,014

The notes to the financial statements are an integral part of this statement.

Village of Elise  
Statement of Activities  
For The Year Ended March 31, 2008

FUNCTIONS / PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Unit
				Governmental Activities	Business-Type Activities	Total	
Primary Government							
General government	\$205,256	\$47,963	-	(\$157,293)	-	(\$157,293)	-
Public safety	171,134	-	-	(171,134)	-	(171,134)	-
Public works	121,389	-	\$78,368	(43,021)	-	(43,021)	-
Community and economic development	3,537	3,316	-	(221)	-	(221)	-
Recreation and culture	13,132	-	-	(13,132)	-	(13,132)	-
Total governmental activities	514,448	51,279	78,368	(384,801)	-	(384,801)	-
Business-type activities							
Sewer System	258,606	138,284	-	-	(\$120,322)	(120,322)	-
Water System	128,605	93,811	-	-	(34,794)	(34,794)	-
Total business-type activities	387,211	232,095	-	-	(155,116)	(155,116)	-
Total primary government	\$901,659	\$283,374	\$78,368	(384,801)	(155,116)	(539,917)	-
Component units							
Downtown development authority	\$113,997	-	-	-	-	-	(\$113,997)
General Revenues							
Property taxes				241,877	-	241,877	28,773
State shared revenues				110,209	-	110,209	-
Unrestricted investment earnings				17,481	24,679	42,160	5,528
Miscellaneous revenue				105,859	1,919	107,778	36
Transfers in (out)				(68,000)	68,000	-	-
Total general revenues				407,426	94,598	502,024	34,337
Change in net assets				22,625	(60,518)	(37,893)	(79,660)
Prior period adjustment				45,433	(63,695)	(18,262)	-
Net assets - beginning of year				453,120	4,408,708	4,861,828	261,674
Net assets - end of year				\$521,178	\$4,284,495	\$4,805,673	\$182,014

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**



Village of Elsie  
Balance Sheet  
Governmental Funds  
March 31, 2008

	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$268,814	\$59,467	(\$20,754)	\$307,527
Investments	87,590	2,380	105,591	195,561
Accounts receivable	4,100	-	-	4,100
Due from other governments	71,410	10,213	3,612	85,235
Due from other funds	-	-	36,673	36,673
<b>TOTAL ASSETS</b>	<b>\$431,914</b>	<b>\$72,060</b>	<b>\$125,122</b>	<b>\$629,096</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$7,744	\$801	\$165	\$8,710
Accrued liabilities	-	122	198	320
Due to other funds	175,570	14,642	-	190,212
<b>TOTAL LIABILITIES</b>	<b>183,314</b>	<b>15,565</b>	<b>363</b>	<b>199,242</b>
<b>FUND BALANCES</b>				
Designated for police	5,851	-	-	5,851
Designated for building & grounds	14,500	-	-	14,500
Designated for cemetery care	19,604	-	-	19,604
Reserved for perpetual care	-	-	125,072	125,072
Unreserved, undesignated, reported in:				
General fund	208,645	-	-	208,645
Special revenue funds	-	56,495	(313)	56,182
<b>TOTAL FUND BALANCES</b>	<b>248,600</b>	<b>56,495</b>	<b>124,759</b>	<b>429,854</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$431,914</b>	<b>\$72,060</b>	<b>\$125,122</b>	<b>\$629,096</b>

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended March 31, 2008

Total fund balance - governmental funds	\$429,854
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	265,446
Deduct: accumulated depreciation	(161,270)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Deduct: compensated absences	<u>(12,852)</u>
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Net assets of governmental activities	<u><u>\$521,178</u></u>
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The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Statement of Revenue, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended March 31, 2008

	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$210,635	\$15,621	\$15,621	\$241,877
Licenses and permits	4,673	-	-	4,673
State grants	110,209	57,898	20,470	188,577
Charges for services	46,606	-	-	46,606
Interest and rentals	8,140	1,821	7,520	17,481
Miscellaneous revenues	105,859	-	-	105,859
TOTAL REVENUES	486,122	75,340	43,611	605,073
EXPENDITURES				
General government	166,681	-	-	166,681
Public safety	145,385	-	-	145,385
Public works	-	74,047	38,551	112,598
Community and economic development	3,537	-	-	3,537
Recreation and cultural	12,519	-	-	12,519
Other	36,207	-	-	36,207
Capital outlay	12,926	-	-	12,926
TOTAL EXPENDITURES	377,255	74,047	38,551	489,853
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	108,867	1,293	5,060	115,220
OTHER FINANCING SOURCES (USES)				
Transfer in/(out)	(70,000)	-	2,000	(68,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	38,867	1,293	7,060	47,220
FUND BALANCE, BEGINNING OF YEAR	164,300	55,202	117,699	337,201
PRIOR PERIOD ADJUSTMENT	45,433	-	-	45,433
FUND BALANCE, END OF YEAR	<u>\$248,600</u>	<u>\$56,495</u>	<u>\$124,759</u>	<u>\$429,854</u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended March 31, 2008

Net change in fund balances - total governmental funds	\$47,220
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Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those assets  
is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay	12,926
Deduct: depreciation expense	(30,147)

Some expenses reported in the statement of activities do not  
require the use of current financial resources and therefore are  
not reported as expenditures in the funds.

Deduct: increase in accrual for compensated absences	<u>(7,374)</u>
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Change in net assets of governmental activities	<u><u>\$22,625</u></u>
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The notes to the financial statements are an integral part of this statement.



Village of Elsie  
Statement of Net Assets  
Proprietary Funds  
March 31, 2008

	<b>Business-Type Activities</b>		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$91,542	\$16,765	\$108,307
Investments	220,652	21,422	242,074
Accounts receivable	18,288	15,843	34,131
Due from other funds	90,539	63,000	153,539
Total current assets	421,021	117,030	538,051
Noncurrent assets			
Special assessment receivable	1,690	-	1,690
Capital assets not being depreciated	153,000	18,000	171,000
Capital assets, net of depreciation	4,828,360	845,870	5,674,230
Total noncurrent assets	4,983,050	863,870	5,846,920
<b>TOTAL ASSETS</b>	<b>5,404,071</b>	<b>980,900</b>	<b>6,384,971</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	2,000	975	2,975
Accrued liabilities	844	977	1,821
Accrued interest payable	6,372	13,254	19,626
Current portion of long-term debt	23,000	35,728	58,728
Total current liabilities	32,216	50,934	83,150
Noncurrent liabilities			
Noncurrent portion of long-term debt	1,643,000	374,326	2,017,326
<b>TOTAL LIABILITIES</b>	<b>1,675,216</b>	<b>425,260</b>	<b>2,100,476</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,317,050	453,816	3,770,866
Restricted for:			
Bond reserve	69,300	-	69,300
RRI/sludge removal reserve	70,000	-	70,000
Unrestricted	272,505	101,824	374,329
<b>TOTAL NET ASSETS</b>	<b>\$3,728,855</b>	<b>\$555,640</b>	<b>\$4,284,495</b>

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended March 31, 2008

	<b>Business-Type Activities</b>		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$138,284	\$93,811	\$232,095
Other	-	1,919	1,919
<b>TOTAL OPERATING REVENUES</b>	<b>138,284</b>	<b>95,730</b>	<b>234,014</b>
OPERATING EXPENSES			
Salaries and wages	10,137	24,428	34,565
Fringe benefits	1,691	3,369	5,060
Contractual services	11,835	9,971	21,806
Supplies	5,146	14,138	19,284
Insurance	552	1,749	2,301
Utilities	12,776	10,183	22,959
Printing and publishing	15	1,130	1,145
Repairs and maintenance	7,298	5,019	12,317
Vehicle expense	4,881	1,249	6,130
Other	2,681	1,494	4,175
Depreciation	128,978	32,477	161,455
<b>TOTAL OPERATING EXPENSES</b>	<b>185,990</b>	<b>105,207</b>	<b>291,197</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(47,706)</b>	<b>(9,477)</b>	<b>(57,183)</b>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	20,703	3,976	24,679
Interest expense	(72,616)	(23,398)	(96,014)
Transfer in	5,000	63,000	68,000
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(46,913)</b>	<b>43,578</b>	<b>(3,335)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(94,619)</b>	<b>34,101</b>	<b>(60,518)</b>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<b>3,887,169</b>	<b>521,539</b>	<b>4,408,708</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>(63,695)</b>	<b>-</b>	<b>(63,695)</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$3,728,855</b>	<b>\$555,640</b>	<b>\$4,284,495</b>

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended March 31, 2008

	<b>Business-Type Activities</b>		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$136,503	\$94,908	\$231,411
Payments to employees	(11,828)	(27,797)	(39,625)
Payments to suppliers	(45,177)	(44,927)	(90,104)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>79,498</u>	<u>22,184</u>	<u>101,682</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(14,444)	(1,372)	(15,816)
Interest revenue	20,703	3,976	24,679
<b>NET CASH FLOWS FROM INVESTING</b>	<u>6,259</u>	<u>2,604</u>	<u>8,863</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal and interest paid on capital debt	(94,653)	(60,021)	(154,674)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(8,896)	(35,233)	(44,129)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>100,438</u>	<u>51,998</u>	<u>152,436</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$91,542</u></u>	<u><u>\$16,765</u></u>	<u><u>\$108,307</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by Operating activities			
Operating income (loss)	(\$47,706)	(\$9,477)	(\$57,183)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	128,978	32,477	161,455
Change in assets and liabilities			
(Increase) in accounts receivable	(1,781)	(822)	(2,603)
(Decrease) in accounts payable	7	6	13
Increase (decrease) in accrued liabilities	-	890	890
(Decrease) in compensated absences	-	(890)	(890)
<b>Net cash provided by operating activities</b>	<u><u>\$79,498</u></u>	<u><u>\$22,184</u></u>	<u><u>\$101,682</u></u>

The notes to the financial statements are an integral part of this statement.

## **NOTES TO THE FINANCIAL STATEMENTS**



Village of Elsie  
Notes to Financial Statements

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Village of Elsie (the Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

**Reporting Entity**

The Village is governed by an elected five-member Council. The Village receives funding from local and state sources and must comply with all of the requirements of these funding source entities. However, the Village is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Council members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

**Discretely Presented Component Units**

The following component units are reported within the component unit column in the combined financial statements.

Downtown Development Authority - The Village of Elsie Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body is selected by the Village Council. In addition, the Authority's budget is subject to approval by the Village's Council. The Village is financially accountable for the Downtown Development Authority's activities.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Village of Elsie  
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Village of Elsie  
Notes to Financial Statements

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Village reports the following major proprietary funds:

The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system.

### **Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

### **Budgetary Data**

Budgets are adopted by the Village for the general fund and the major street fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

The Village does not maintain a formalized encumbrance accounting system.

Village of Elsie  
Notes to Financial Statements

### **Property Taxes**

The Village's property tax is levied on July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31<sup>st</sup>.

Although the Village's 2007 ad valorem tax is levied and collectible on July 1<sup>st</sup>, 2007, it is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 taxable valuation of property located in the Village totaled \$16.4 million, on which ad valorem taxes levied consisted of 11.6954 mills for operating purposes, 1.8712 mills for streets and highways and .9356 mills for cemetery maintenance, raising \$192 thousand for operating purposes, \$31 thousand for streets and highways and \$15 thousand for cemetery maintenance. Amounts for operating and cemetery maintenance are recognized in the general fund as tax revenues. Amounts for streets and highways are recognized in the major street and local street funds as tax revenues.

### **Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### **Cash and cash equivalents**

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

### **Receivables and Payables**

Receivables have been recognized for all significant amounts due the Village as of March 31<sup>st</sup>. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Also, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".



Village of Elsie  
Notes to Financial Statements

### **Inventories**

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures when purchased.

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the Village are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	15 - 50
Vehicles	5
Machinery and Equipment	3 - 20
Sewer system and improvements	20 - 75
Water system and improvements	40
Land	Not Applicable – Not Depreciated

### **Compensated Absences (Vacation and Sick Leave)**

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

### **Long-Term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Village of Elsie  
Notes to Financial Statements

**Fund Equity**

In the fund financial statements, governmental funds report reservations/restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget committee. The budget committee compiles such information and submits it to the council, along with recommendations, in March of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following April 1<sup>st</sup>. The council holds public hearings and final budgets are adopted prior to April 1<sup>st</sup>.

Prior to April 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended). Council must approve any revisions to the budget.

Formal budgetary integration is employed as a management control device during the year. The Village does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

**Excess of Expenditures over Appropriations in Budgeted Funds**

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

**Fund Balance Deficit**

As of March 31, 2008, the Village incurred a deficit fund balance in the Local Street Fund of \$313.

Village of Elsie  
Notes to Financial Statements

**NOTE 3 – DETAIL NOTES**

**Cash and Cash Equivalents**

At year end, the carrying amount of the Village's cash and cash equivalents was \$512,344:

	Governmental Activities	Business- Type Activities	Total Primary Government	Component Unit
Cash Deposits	\$307,527	\$108,307	\$415,834	\$47,998
Certificates of Deposit	-	-	-	48,512
Totals	\$307,527	\$108,307	\$415,834	\$96,510

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be recovered. At March 31, 2008, the bank balance of the primary government's deposits was \$415,834 of which \$200,000 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. The component unit's deposits had a bank balance of \$146,391, of which \$100,000 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Deposits which exceed FDIC insurance coverage limits are held at local banks.

Investments

State statutes authorize the Village to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. The Village's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Village of Elsie  
Notes to Financial Statements

As of March 31, 2008, the Village had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Rating	%
<b><i>Primary Government:</i></b>				
DWS U.S. Government Securities Fund - A	\$93,690	4.3	AAA	21%
Federated GNMA Instl Service	343,945	4.5	AAA	79%
Total fair value	\$437,635			100%
Portfolio weighted average maturity		4.5		
1 day maturity equals 0.0027, one year equals 1.00				

Interest Rate Risk - Investments

In accordance with its investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of an outside party. The Village requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Village does not have any additional policies for custodial credit risk over investments.

Village of Elsie  
Notes to Financial Statements

**Credit Risk**

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Village's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

**Concentration of Credit Risk**

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Receivables**

Receivables as of year-end for the Village's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Non-Major Funds	Sewer Fund	Water Fund	Total
Accounts	\$4,100	-	-	-	-	\$4,100
Special Assessments	-	-	-	\$1,690	-	1,690
Other Governments	71,410	\$10,213	\$3,612	-	-	85,235
Water and Sewer Billings	-	-	-	18,288	\$15,843	34,131
Totals	\$75,510	\$10,213	\$3,612	\$19,978	\$15,843	\$125,156

Village of Elsie  
Notes to Financial Statements

**Interfund Receivables, Payables and Transfers** - The composition of interfund balances is as follows:

	Interfund Receivables	Interfund Payables
General Fund	-	\$175,570
Sewer Fund	\$90,539	-
Water Fund	63,000	-
Cemetery Perpetual Care	22,031	-
Major Street Fund	-	14,642
Local Street Fund	14,642	-
Totals	\$190,212	\$190,212

**Capital Assets**

Capital asset activity of the primary government for the current year was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Assets</b>				
Buildings	\$95,013	-	-	\$95,013
Equipment	94,080	-	-	94,080
Vehicles	109,881	\$12,926	(\$46,454)	76,353
Subtotal	298,974	12,926	(46,454)	265,446
<b>Accumulated Depreciation</b>				
Buildings	(50,322)	(2,842)	-	(53,164)
Equipment	(43,627)	(10,542)	-	(54,169)
Vehicles	(83,628)	(16,763)	46,454	(53,937)
Subtotal	(177,577)	(30,147)	46,454	(161,270)
Net Capital Assets	\$121,397	(\$17,221)	-	\$104,176

Village of Elsie  
Notes to Financial Statements

<b>Business Type Activities – Sewer System Fund</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Assets				
Land	\$153,000	-	-	\$153,000
Buildings & Sewer System	6,691,198	-	-	6,691,198
Equipment	185,323	-	(\$93,685)	91,638
Subtotal	7,029,521	-	(93,685)	6,935,836
Accumulated Depreciation				
Buildings & Sewer System	(1,765,742)	(\$120,954)	-	(1,886,696)
Equipment	(89,746)	(8,024)	29,990	(67,780)
Subtotal	(1,855,488)	(128,978)	29,990	(1,954,476)
Net Capital Assets	\$5,174,033	(\$128,978)	(\$63,695)	\$4,981,360

Village of Elsie  
Notes to Financial Statements

<b>Business Type Activities – Water System Fund</b>	Beginning Balance	Increases	Decreases	Ending Balance
Assets				
Land	\$18,000	-	-	\$18,000
Equipment	86,115	-	(\$1,137)	84,978
System	793,467	-	-	793,467
Tower	426,817	-	-	426,817
Subtotal	1,324,399	-	(1,137)	1,323,262
Accumulated Depreciation				
Equipment	(81,374)	(\$1,970)	1,137	(82,207)
System	(223,969)	(19,837)	-	(243,806)
Tower	(122,709)	(10,670)	-	(133,379)
Subtotal	(428,052)	(32,477)	1,137	(459,392)
Net Capital Assets	\$896,347	(\$32,477)	-	\$863,870

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental Activities</b>	
General Government	\$10,844
Public Safety	10,512
Public Works	8,791
Total Governmental Activities	30,147
<b>Business-Type Activities</b>	
Sewer System Fund	128,978
Water System Fund	32,477
Total Business-Type Activities	\$161,455

The Village is considered a “Phase 3” Government, as defined by GASB 34. Accordingly, the Village has elected to not retroactively apply the reporting of major general infrastructure assets.



Village of Elsie  
Notes to Financial Statements

### Long-Term Debt

The Village's long-term debt as of March 31, 2008 is as follows:

Compensated Absences – Individual employees have vested rights upon termination of employment to receive payments for unused compensated absences. The dollar amounts of these vested rights have been accrued on the government-wide financial statements. The total liability amounted to approximately \$12,852 at March 31, 2008.

Sewer System Revenue Bonds – In February, 2001, the Village issued \$1,800,000 in Sewer System Revenue Bonds. These are 40 year bonds in which principal is due in annual installments ranging from \$17,000 to \$94,000 through September 1, 2041, with interest of 4.50 percent, payable semi-annually.

Water System Refunding Bonds – In October, 1997, the Village issued \$265,000 in Water Refunding Bonds. These are 23 year bonds in which principal is due in annual installments ranging from \$5,000 to \$25,000 through May 1, 2020, with interest of 5.274 percent, payable semi-annually.

Installment Purchase – In May, 2004, the Village entered into a loan with Municipal Services Group, Inc. for a \$280,000 installment purchase in order to construct a water well. This loan is due in annual installments of \$36,420 through May 25, 2014, including interest of 5.09 percent, payable annually.

Debt balances and transactions for the year ended March 31, 2008 are as follows for the Governmental Activities:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$5,478	\$7,374	-	\$12,852	-

Village of Elsie  
Notes to Financial Statements

Debt balances and transactions for the year ended March 31, 2008 are as follows for the Business-Type Activities:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
Sewer System Revenue Bonds	\$1,688,000	-	(\$22,000)	1,666,000	\$23,000
Water System Refunding Bonds	210,000	-	(10,000)	200,000	10,000
Installment Purchase	234,536	-	(24,482)	210,054	25,728
Compensated Absences	890	-	(890)	-	-
Subtotal	\$2,133,426	-	(\$57,372)	\$2,076,054	\$58,728

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

	Revenue Bonds		Refunding Bonds		Installment Purchase	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$23,000	\$74,452	\$10,000	\$10,311	\$25,728	\$10,692
2010	24,000	73,395	10,000	9,821	27,038	9,382
2011	25,000	72,293	10,000	9,324	28,414	8,006
2012	26,000	71,145	10,000	8,816	29,860	6,560
2013	27,000	69,953	15,000	8,169	31,380	5,040
2014-2018	155,000	329,918	80,000	28,804	67,634	5,207
2019-2023	195,000	290,633	65,000	5,509	-	-
2024-2028	242,000	241,785	-	-	-	-
2029-2033	302,000	180,765	-	-	-	-
2034-2038	377,000	104,648	-	-	-	-
2039-2043	270,000	18,585	-	-	-	-
Totals	\$1,666,000	\$1,527,572	\$200,000	\$80,754	\$210,054	\$44,887

### Risk Management

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, crime, and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

Village of Elsie  
Notes to Financial Statements

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

**Net Asset Restrictions – Sewer Fund**

The Sewer System Revenue Bonds entered into by the Village require annual deposits into reserve accounts in order to fund future anticipated costs related to bond repayments, sewer system repair/replacement/improvements (RRI) and sludge removal. As of March 31, 2008, reserves for bond repayments totaled \$69,300 and reserves for RRI/sludge removal totaled \$70,000.

**Related Party Transaction**

As of March 31, 2008, the Village of Elsie Downtown Development Authority has a note receivable from an entity owned by a member of the Board of the Downtown Development Authority in the amount of \$21,449.

**Employee Retirement and Benefit Systems**

*Plan Description*

The Village participates in a Simple IRA plan under section 408(p) of the Internal Revenue Code.

All employees of the Village are eligible to participate in the plan. As of March 31, 2008, the plan's current membership was 6 employees.

A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

*Funding Policy*

Participants can contribute through a salary reduction contribution. The Village matches participant contribution up to a limit of 3% of the employee's compensation for the calendar year. Participants are 100% vested in all contributions.

During the year, the actual contributions to the plan amounted to \$12,960, which includes \$4,942 of employer contributions, and \$8,018 of employee contributions.

Village of Elsie  
Notes to Financial Statements

**Building Inspection Department Fund**

Public Act 245 of 1999 was signed on December 28, 1999 and took immediate effect. This act amends the State Construction Code Act (Public Act 230 of 1972) and requires, among other things, the establishment of a special revenue fund to account for the revenues and expenditures associated with issuing building permits, examining plans and specifications, inspecting construction before issuing permits, and issuing certificates of use and occupancy.

The Village has not established this fund because the fee structure is not intended to recover the full cost and the Village has the ability to track the full cost and revenues of this activity without creating a separate fund.

The revenues generated under this act for the year ended March 31, 2008 were \$3,316. The expenditures incurred for this activity during the year ended March 31, 2008 were \$3,537.

**Prior Period Adjustment**

The following transactions were recognized in these financial statements as prior period adjustments:

Description	2008	2007
<b><i>Primary Government:</i></b>		
Adjustment for State Shared Revenues Receivable	\$45,433	\$22,606
Adjustment for Capital Assets	(\$63,695)	-
<b><i>Component Unit:</i></b>		
Adjustment to Beginning Loan Receivable	-	\$20,190

## **REQUIRED SUPPLEMENTAL INFORMATION**



Village of Elsie  
Budgetary Comparison Schedule for the General Fund  
For the Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$228,705	\$198,383	\$210,635	\$12,252
Licenses and permits	2,175	3,995	4,673	678
State grants	113,000	111,317	110,209	(1,108)
Charges for services	31,000	22,822	46,606	23,784
Interest and rentals	2,800	1,892	8,140	6,248
Miscellaneous revenues	62,012	57,096	105,859	48,763
TOTAL REVENUES	439,692	395,505	486,122	90,617
EXPENDITURES				
General government	182,373	233,415	166,681	66,734
Public safety	131,138	135,770	145,385	(9,615)
Community and economic development	3,600	3,537	3,537	-
Recreation and cultural	16,865	13,133	12,519	614
Other	-	-	36,207	(36,207)
Capital outlay	-	-	12,926	(12,926)
TOTAL EXPENDITURES	333,976	385,855	377,255	8,600
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	105,716	9,650	108,867	99,217
OTHER FINANCING SOURCES (USES)				
Transfers out	(97,908)	(97,908)	(70,000)	27,908
TOTAL OTHER FINANCING SOURCES (USES)	(97,908)	(97,908)	(70,000)	27,908
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	7,808	(88,258)	38,867	127,125
FUND BALANCES, BEGINNING OF YEAR	164,300	164,300	164,300	-
PRIOR PERIOD ADJUSTMENT	-	-	45,433	45,433
FUND BALANCES, END OF YEAR	\$172,108	\$76,042	\$248,600	\$172,558

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
 Budgetary Comparison Schedule for the Major Street Fund  
 For the Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$14,954	\$14,954	\$15,621	\$667
State grants	59,000	57,371	57,898	527
Interest and rentals	1,200	1,670	1,821	151
TOTAL REVENUES	75,154	73,995	75,340	1,345
EXPENDITURES				
Public works	70,805	74,049	74,047	2
TOTAL EXPENDITURES	70,805	74,049	74,047	2
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,349	(54)	1,293	1,347
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,000)	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,349	(54)	1,293	1,347
FUND BALANCES, BEGINNING OF YEAR	55,202	55,202	55,202	-
FUND BALANCES, END OF YEAR	<u>\$58,551</u>	<u>\$55,148</u>	<u>\$56,495</u>	<u>\$1,347</u>

The notes to the financial statements are an integral part of this statement.

## **OTHER SUPPLEMENTAL INFORMATION**





Village of Elsie  
Combining Balance Sheet  
Non-Major Governmental Funds  
March 31, 2008

	<u>Special Revenue</u>	<u>Permanent</u>	
	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	(\$18,204)	(\$2,550)	(\$20,754)
Investments	-	105,591	105,591
Due from other funds	14,642	22,031	36,673
Due from other governments	3,612	-	3,612
	<u>3,612</u>	<u>-</u>	<u>3,612</u>
<b>TOTAL ASSETS</b>	<u><u>\$50</u></u>	<u><u>\$125,072</u></u>	<u><u>\$125,122</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$165	-	\$165
Accrued liabilities	198	-	198
	<u>198</u>	<u>-</u>	<u>198</u>
<b>TOTAL LIABILITIES</b>	<u>363</u>	<u>-</u>	<u>363</u>
<b>FUND BALANCES</b>			
Reserved for perpetual care	-	\$125,072	125,072
Unreserved, undesignated	(313)	-	(313)
	<u>(313)</u>	<u>-</u>	<u>(313)</u>
<b>TOTAL FUND BALANCES</b>	<u>(313)</u>	<u>125,072</u>	<u>124,759</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$50</u></u>	<u><u>\$125,072</u></u>	<u><u>\$125,122</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Non-Major Governmental Funds  
For the Year Ended March 31, 2008

	<u>Special Revenue</u>	<u>Permanent</u>	
	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>	<u>Totals</u>
REVENUES			
Taxes	\$15,621	-	\$15,621
State grants	20,470	-	20,470
Interest and rentals	864	\$6,656	7,520
	<u>36,955</u>	<u>6,656</u>	<u>43,611</u>
TOTAL REVENUES			
EXPENDITURES			
Public works	38,551	-	38,551
	<u>38,551</u>	<u>-</u>	<u>38,551</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,596)	6,656	5,060
OTHER FINANCING SOURCES			
Transfer in	-	2,000	2,000
	<u>-</u>	<u>2,000</u>	<u>2,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,596)	8,656	7,060
FUND BALANCES, BEGINNING OF YEAR	1,283	116,416	117,699
	<u>1,283</u>	<u>116,416</u>	<u>117,699</u>
FUND BALANCES, END OF YEAR	(\$313)	\$125,072	\$124,759
	<u>(\$313)</u>	<u>\$125,072</u>	<u>\$124,759</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Village Council  
Village of Elsie  
Elsie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elsie (the Village) as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These significant deficiencies are described in the accompanying schedule of findings as items 2008-1, 2008-2, 2008-3, 2008-4 and 2008-5.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies described in the accompanying schedule of findings, we consider items 2008-2, 2008-3, 2008-4 and 2008-5 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village in a separate letter dated August 25, 2008.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 25, 2008

## **Village of Elsie Schedule of Findings**

### **2008-1: Preparation of Financial Statements**

Effective for the year ended March 31, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended March 31, 2008 required numerous audit adjustments, most of which the staff was aware needed to be recorded. The staff of the Village does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

### **2008-2: Fully Implement Use of General Ledger Accounting System**

During the 2007 fiscal year, the Village installed a new general ledger accounting software to be used in all aspects of accounting for the transactions of the Village. However, as of the time of the audit, the Village had not begun to utilize this software to its fullest capacity. We noted that cash accounts are still maintained on a manual ledger and related reconciliations are prepared outside of the system. We recommend that management reevaluate the use of the general ledger system and determine what efficiencies could be gained by utilizing the system for its intended use. Also, we recommend additional training for employees of the Village in order to be able to understand issues as they relate to the software.

## **Village of Elsie Schedule of Findings**

### **Finding 2008-3: Review of Bank Reconciliations**

The Village currently does not have a policy that requires someone other than the preparer (i.e. other members of the Village Council) review all completed bank reconciliations on a monthly basis.

Internal control is most effective when the bank reconciliations are prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of employees, we recommend that this review procedure be incorporated into the formal accounting policies and performed monthly. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by individuals preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

### **2008-4: Cash Balances**

During our audit, we noted that certain cash activity was not included in the general ledger, such as 941 payments and certain manual checks. Also, we noted that cash reconciliations did not balance with the general ledger. We recommend that all cash activity be reported in the general ledger and that the cash balance noted in the general ledger be reconciled with bank records on a monthly basis.

### **2008-5: Adjustments to Water/Sewer Billing System**

During our audit we noted a significant number of adjustments made to the water/sewer billing system. This situation requires close review by members of the Village Council and the reason for the adjustments needs to be identified and corrected. We would encourage additional training on the billing system for employees of the Village, if needed, for a better working knowledge of the system in order to reduce the need for additional adjustments.



## Management Letter

To The Village Council  
Village of Elsie  
Elsie, Michigan

In planning and performing our audit of the financial statements of the Village of Elsie for the fiscal year ended March 31, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 25, 2008 on the financial statements of the Village of Elsie.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 25, 2008

## **Organizational Structure**

### **Organizational Structure**

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Village Council remain involved in the financial affairs of the Village to provide oversight and independent review functions.

For example, we recommend that a member of the Council review bank statements for any unusual checks or other transactions before giving them to the Treasurer to perform the reconciliation. Then, after the bank reconciliation is completed, we recommend that a member of the Council review the reconciliations for any unusual items. Once these reviews are completed, the bank statements and reconciliations should be initialed by the reviewer as evidence that the review had taken place. Council's review of the bank statements and reconciliations will ensure that unusual items are investigated on a timely basis.

### **Update Investment Policy**

We noted that the Village has an outdated investment policy, which warrants changes to comply with *Governmental Accounting Standards Board* (GASB) Statement #40. GASB Statement #40 requires that notes to the financial statements of the Village disclose how the Village's investment policy addresses various kinds of risk related to common deposits and investments. We recommend that the Village review their investment policy and make the changes necessary to address these related risks.

### **Develop an Accounting Procedures Manual**

We noted that the Village does not have an accounting procedures manual which details accounting policies to be followed by the employees/Management/Council of the Village. The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

Additionally, the following policy's should be included in the manual:

#### **Credit Card Policy**

We recommend that the Village Council evaluate use of the credit card and formally adopt a policy relating to expected use and limitations of the credit card as well as expectations relating to submission of receipts for expenses incurred on the credit card.



### **Capital Asset Policy**

With the implementation of GASB # 34, local governments are now required to report capital assets in the Statement of Net Assets. We recommend that the Village formally adopt a policy which will outline the criteria for asset capitalization. For example, if the asset cost is over \$5,000 and has an estimated useful life of over one year, the asset meets criteria to be capitalized in the statement of net assets. By doing this, expectations of the Council are clearly defined and agreed upon and formally adopted for future reference.

By developing an accounting procedures manual and including items detailed above, a clear communication of the expected accounting procedures and related reporting responsibilities have been established and passed along to employees, Management and Council of the Village.

### **Cash / Investment Accounts**

We noted that certain cash accounts of the various funds are pooled into one account at the bank. We recommend that each fund of the Village maintain its own cash/investment account. In this way, cash activity, including interest income can be specifically identified to, and posted directly to, that fund throughout the year without the need for an additional reconciliation.

### **Cash Balances**

We noted that certain cash activity was not included in the general ledger, including tax deposit payments and certain manual checks. Also, we noted that cash reconciliations did not balance with the general ledger. We recommend that all cash activity be reported in the general ledger and that the cash balance noted in the general ledger be reconciled with bank records on a monthly basis.

### **Reconcile Cash Accounts on a Timely Basis**

During the audit, we noted that bank accounts, in some instances, were reconciled several months after the bank statements were received. Not reconciling the accounts on a timely basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while related transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

### **Prepare Listing of Accounts Receivable and Payable**

We noted that the Village does not prepare a regular listing of accounts receivable or accounts payable. We recommend that these listings be prepared periodically (at a minimum for year-end purposes) to allow for proper review of amounts due to the Village, or payable by the Village as of year-end. Also, during our audit we noted that several payment items had been entered into the system, but not "posted", thereby overstating payables. Therefore, we also recommend that a review of the receivable and payable amounts listed in the system be reviewed at least monthly.

### **Separately Code Capital Equipment Purchases**

Currently the Village does not capitalize property and equipment acquisitions during the year. Instead, the expenditures are recorded in one expense account, along with small equipment purchases. Then, when the annual financial statements are prepared, equipment purchases that require capitalization are reclassified.

In order to identify those purchases that will be capitalized and subsequently depreciated, we recommend those purchases be coded to a separate general ledger account. This will allow the depreciation schedule of the Village to be more easily maintained in the future.

### **Fully Implement Use of General Ledger Accounting System**

During the 2007 fiscal year, the Village installed a new general ledger accounting software to be used in all aspects of accounting for the transactions of the Village. However, as of the time of the audit, the Village had not begun to utilize this software to its fullest capacity. We noted that cash accounts are still maintained on a manual ledger and related reconciliations are prepared outside of the system. We recommend that management reevaluate the use of the general ledger system and determine what efficiencies could be gained by utilizing the system for its intended use. Also, we recommend additional training for employees of the Village in order to be able to understand issues as they relate to the software.

### **Adjustments to Water/Sewer Billing System**

We noted a significant number of adjustments made to the water/sewer billing system during the 2008 fiscal year. This situation requires close review by members of the Village Council and the reason for the adjustments needs to be identified and corrected. We would encourage additional training on the billing system for employees of the Village, if needed, for a better working knowledge of the billing system in order to reduce the need for additional adjustments.